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SIPDIS

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JOHANNESBURG TDA FOR DSHUSTER

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SUBJECT: Mozambique - January Economic Digest

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¶1. This is a brief summary of significant economic developments in Mozambique during January 2007. We provide it as a supplement to our other reporting. The items discussed are:

- World Bank Approves Loan Support for PARPA II
- World Bank to Support ProMaputo via IDA Credit
- SA Sugar Firm Plans Expansion of Sugar Production in Mozambique
- Old Metical No Longer Legal Currency, Still Circulating
- 2006 Brought Large Increase in IPR Seizures
- Customs Revenues Exceeded 2006 Projections

World Bank Approves Loan Support for PARPA II

¶1. On January 25 the World Bank Board of Executive Directors approved an International Development Association (IDA) credit of USD 70 million under the Third Poverty Reduction Support Credit (PRSC 3). The PRSC 3 begins a new series of credits designed to support implementation of Mozambique's Second Action Plan for Reduction of Absolute Poverty (PARPA II). This IDA credit will be disbursed against the upfront completion of a number of specific reforms agreed upon by the Government of Mozambique and the 18 external partners (G18) providing general budget support. (Note: The USG does not provide general budget support, but participates in some G-18 working groups. End note.)

¶2. The PRSC series focuses first on key constraints in cross-cutting areas such as public financial management and the business environment. It then develops to support decentralization and shared growth. According to the World Bank, the new PRSC series will specifically support all of the following: 1) Macroeconomic management by consolidating and deepening institutional reforms; 2) Reforms in the governance area by supporting efforts to enhance public investments and service delivery at the provincial and

district level, and by supporting public sector reform; and 3) Economic development by improving the business environment, removing constraints and promoting agricultural growth. Mozambique's PARPA II is built around the three pillars of Governance, Human Capital and Economic Development, and is the GRM's five-year operational plan (2006-2010).

World Bank to Support ProMaputo via IDA Credit

¶3. On January 25, the World Bank Board of Executive Directors approved an International Development Association (IDA) credit of USD 30 million to support implementation of the Maputo Municipal Development Program (ProMaputo). According to the World Bank, this IDA credit is for the Phase I (three years) of the program. IDA contributions for the second phase will be defined at a later date and will be subject to Phase I key objectives being met. ProMaputo is designed to guarantee ownership, commitment and sustainability, with implementation capacity falling within the structure of the municipality and under the direct leadership of the mayor of Maputo.

¶4. The first phase of ProMaputo contains three components. The first component, Institutional Development and Municipal Governance, focuses on the municipality's internal processes for service delivery; improving the performance of the municipality's functional units; and improving governance. The second component, Municipal Finance, will improve the municipal public finance systems and enhance the budget planning, execution, and control functions. The final component, Planning, Infrastructure Rehabilitation and Service Delivery Improvements, seeks to support urban planning and target investment to improve and rehabilitate critical urban services, including roads and drainage, solid waste management, street lighting and cemetery construction.

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¶5. The first phase of ProMaputo is budgeted at USD 43 million. In addition to the IDA financing, the project will receive USD 6.5 million from the Central Government and USD 6.5 million from the municipality's own revenues generated through the reform process.

SA Sugar Firm Plans Expansion of Sugar Production in Mozambique

¶6. The South African aluminum and sugar company Tongaat-Hulett Group (TH) announced on January 25 that it plans to expand sugar production in Mozambique, more than doubling its production by 2009. (Note: TH's sugarcane fields are responsible for roughly half of Mozambique's total sugar production. End note.) The expansion, which will cost an estimated USD 180 million, positions TH to take advantage of Mozambique's duty and quota free access to the European Union (EU) in 2009. This is when EU markets will open up to Least Developed Countries (LDC) producers. TH projects the cash cost for producing sugar in Mozambique to remain around 8.5 cents per pound; the EU promises that sugar prices will remain fixed at 19.6 cents per pound from 2009 until 2015.

¶7. TH plans to expand both of its Mozambican operations. The majority of the investment, approximately USD 166 million, will go towards the company's operation at Xinavane, in Maputo province. New equipment and an additional 6,500 hectares of sugar cane will take the annual cane crushed at Xinavane from 509,000 tons in 2005 to 1.5 million tons by 2009. TH plans to farm an additional 2100 hectares in Mafambisse, in Sofala province, increasing production there by to over 82,000 tons by 2009.

¶8. TH expects to see its processed sugar production

increase from 115,000 tons in 2005 to 270,000 by the time EU markets open up to Mozambican producers. The expansion is expected to create 6,638 new job in Xinavane and 2,145 new jobs in Mafambisse. There is talk that other sugar producers plan to also increase sugar production in Mozambique, a low cost region with large potential.

Old Metical No Longer Legal Currency, Still Circulating

¶9. On Saturday, July 1, 2006, Mozambique began circulation of its new currency, the New Family of Meticais (MTn). The new bills include anti-counterfeit security features and display the image of Mozambique's first post-independence president, Samora Machel. New coins in varying denominations were also released. From July 1 through December 31, 2006, vendors were required to accept both old and new currencies.

¶10. Beginning January 1, 2007, vendors were no longer allowed to accept or return old currency. Old currency must now be exchanged at commercial banks, which will accept the old currency for exchange until December 31, 2007.

¶11. The transition has generally been very smooth. However, in spite of the fact that Bank of Mozambique's declaration that continued use of old currency is a violation of the law, taking old coins out of circulation is proving to be a particular challenge. Vendors continue to accept old coins, often returning change in old coins as well. To address the old coin problem, the Bank of Mozambique opened a special counter for the exchange of coins in mid-December. Although initially available only to businesses, the counter was opened to individuals by mid-January. The Bank of Mozambique hopes that this action will slow and eventually halt circulation of old coins. (See 06 Maputo 776.)

Customs Seized Record Amount of Counterfeit Goods in 2006

¶12. On January 26, World Customs Day, the Mozambican customs authorities held a seminar in Maputo to discuss the fight against counterfeit goods. Harcio Simao, customs director of policies and procedures, discussed the dangers

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of counterfeit goods to the national economy and public safety. Customs also announced that authorities seized counterfeit and pirated goods worth USD 4.7 million in 2006.

¶13. Over the last two years much progress has been made in Mozambique regarding counterfeited goods and illegal imports, as the result of a joint private sector/government task force that investigates and responds to suspected IPR violations.

Customs Service Exceeds Target Revenue for 2006

¶14. The Mozambican Customs Service announced that in 2006 it collected USD 430 million (roughly 40 percent of total government revenue for the year), a twenty percent increase over 2005 and two percent higher than its target amount. Danilo Nala, Deputy General Manager of Customs, attributed the increase to growth of the Mozambican economy, greater efficiency in collecting duties and the fight against tax evasion.

Dudley